

## **COMMERCIAL GUIDE TO THE GERMAN DEFENSE MARKET 2001**

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### **General outlook**

Fundamental political changes have altered European security policy and the role of the German Armed Forces (Bundeswehr) to an extent that could never have been imagined ten years earlier. The fall of the "Iron Curtain", the resulting NATO enlargement and German reunification have led to a reevaluation of the role of the Bundeswehr and strategic military planning. Starting 1990, the Armed Forces have undergone the largest restructuring since their inception forty years ago: Bundeswehr personnel has been cut by one third to 338,000 soldiers in peacetime.

These developments have not rendered the Armed Forces useless, but have changed their role: Germany has to fulfill its duties within EU/WEU/NATO/OSCE and the UN. To remain an equal partner to the other members of these defense alliances, Germany has to maintain key defense industrial capabilities. This calls for a strong, competitive and productive defense industry, which, unlike in some other European countries, is privately owned, and active and substantial participation in strategic projects.

In 1999, a commission entitled "Future of the German Armed Forces" ("Zukunft der Bundeswehr") started to work on a strategic review of the future role of the Bundeswehr within the new European security policy. This review led to a concept published on June 14, 2000 by the Federal Government, which calls for fundamental restructuring of the German armed forces. The reorganization has three pillars:

- a. Investment in human resources, i.e., a reform of the career for sergeants and sergeant-majors, the improvement of promotion systems;
  - b. Reinvestment and modernization of key capabilities, such as airlift, strategic reconnaissance, deployability, mobility and sustainability
  - c. Closer cooperation with the private sector in order to use tax money as efficiently as possible.
- The German Ministry of Defense has entered into agreements with over 250 private companies in the country regarding education and vocational training of personnel. Agreements have also been reached with over 300 private organizations and companies on procurement and operational costs. Outsourcing will be a priority with regard to every service that is not a core military one.

Conscription remains central to the Bundeswehr, but military service will be reduced to nine months beginning in 2002. By 2006 Germany will have reduced its forces to 282,000 of which 80,000 will be conscripts.

The 2000 defense budget amounted to USD 22.52 billion, 25.4% thereof were invested in equipment. The budget for 2001 is USD 22.28 billion with a 23.9% share invested in equipment.

With a basic reform of the procurement process called "Customer Product Management 2001" program (see below) the Ministry of Defense plans to increase the percentage share of expenditures in equipment. Also, the foundation of a strategic partnership with industry, using the framework of "Innovation, Investition und Wirtschaftlichkeit in der Bundeswehr" (Innovation, Investment and Economic Efficiency in the Armed Forces), has the aim of modernizing the armed

forces and its administration. The military will be required to function in all its operations, including procurement, like a business. The armed forces will outsource to industry for this purpose and will only carry out pure military tasks in the future. If a task can be fulfilled by industry, it has to be outsourced.

A crucial role within this process plays the “Gesellschaft für Entwicklung, Beschaffung und Betrieb” (GEBB) (Institution for Development, Procurement and Operation), which has to analyze potential for cost-saving in the armed forces and supervises the administration of real estate.

### **Aerospace:**

2000 was one of the most successful years in the history of the German aerospace industry. According to industry sources, this is a result of several years of restructuring. As a result, Germany has a healthy high-tech aerospace industry today, which can face international competition.

Although total sales in the German aerospace industry increased by 5% to USD 12.85 billion and the number of employees increased by 2% up to 68,000, declining defense budgets (the defense budget amounts to 1.3% of the Gross Domestic Product) have a negative effect on the industry. Consequently, the civil sector plays a major part within the growth process contributing two thirds of total sales.

The defense industry has enjoyed several positive procurement decisions in 2000: the government decided to purchase the transport helicopter NH90 and the military transport aircraft A400M (with 32,4% and 73 of 225 aircraft, Germany has the major share in the NATO program). The share of the defense budget invested in equipment has decreased continuously resulting in an old-fashioned equipment of the armed forces. The German defense industry is therefore close to its subsistence level and a further reduction of jobs is anticipated. The former DaimlerChrysler Aerospace Defense and Civil Systems (now EADS) was forced to cut 1,100 jobs in 2000.

In addition to a decreasing German defense market, the domestic industry faces restricted access to the world market due to the export guidelines for armament goods passed by the federal government in January 2000.

The foundation of the European Aeronautic Defence and Space Company (EADS), in July 2000, (the third largest aerospace and defense firm in the world), has been one further step towards consolidation and securing Europe's and Germany's position within global competition. Germany's federal government is currently aiming to achieve equal economic conditions for the different locations of EADS in Europe.

EADS has founded the following subsidiaries:

- EADS and Italian Finmeccanica have established a joint military aircraft company (European Military Aircraft Company (EMAC))
- A cooperation with Northrop Grumman was initiated focusing on Unmanned Reconnaissance Aircraft

In reaction to the ongoing consolidation and concentration process, the German company Diehl has concentrated its avionics and defense systems under the name of Diehl VA Systems.

Germany is also considering whether to integrate the Airbus consortia into EADS. The final - legal - foundation is anticipated for February 2001.

## **Doing business with the German Bundeswehr:**

The Ministry of Defense is responsible for armament and financial planning for the German armed forces. The Defense and Budget Committees of the Parliament also play a decisive role and have approving rights for planning decisions.

In the past weapon systems or equipment that the armed forces intended to procure, had to pass the "EBMat" procedure. ("Directives for the Planning, Development, Procurement, Acceptance and Service-Use of Defense Materiel and Data Processing Projects" ("Bestimmungen für die Planung, Entwicklung und Beschaffung von Wehrmaterial und Datenverarbeitungsvorhaben"). The procedure was set up to represent the ideas of the German Armed Forces and took into consideration materiel, personnel, logistics and infrastructure aspects. In July 2000, the "Customer Product Management (CPM 2001)", replaced the EBMAT regulations starting with a pilot phase until Juni 2001. The new approach has been introduced to close gaps in capabilities of the armed forces. A close cooperation between the Armed Forces and industry is desired. The following are the steps involved in obtaining CM2001 approval:

### **Analysis Phase**

- Determination of gaps in capabilities
- Examination of solutions
- Phase document called "Systemfähigkeitsforderung" (SFF) (system capability requirements)
- Final document called "Abschließende funktionale Forderung"(AF) (final functional requirements)

### **Project Phase**

- Restriction of performance, time and costs risks
- Award of contract
- Planning of introduction
- Assessment and selection
- Authorization for realization

### **Introduction Phase**

- Procurement of products available
- Conclusion of contract
- Measures for introduction
- Review
- Authorization for use and handing over
- Final report "Abschlußbericht"/(ASB)

## **Responsibilities**

### The Chief of Staffs:

The Chief of Staffs, armed forces (Generalinspekteur), plays a leading role regarding the implementation of the Bundeswehr Plan, a strategic 5-year plan with detailed budget requirements. Only new equipment items that have been entered into the Bundeswehr Plan and which have been approved by Parliament can be procured.

### The Chiefs of Staff, Army, Air Force, Navy:

The Chiefs of Staff are responsible for materiel planning, operation and disposal of service-branch specific equipment. Under this responsibility they act as "materiel managers" among other duties, which makes them important for armament issues.

### The Staffs:

The services staffs evaluate all materiel requirements with regard to concept suitability and coordinate these efforts with other service branches, the Armaments Organisation and the Budget Department. Important for procurement and operation of equipment in service are the Staff Departments II of the German Army, AirForce and Navy Staffs (FüL II, FüH II, FüM II). Among others, the Staff Departments II of the service staffs define materiel requirements and plan procurement and operation of defence equipment. In addition, they control all procurement programs of the service branch.

### Army Staff:

Points of contacts for industry with regard to armament issues are the Departments FüH II 5 and FüH II 6. The first department is responsible for combat troop equipment and for ammunition, the latter for all command and control as well as reconnaissance systems and simulators, as well as IT-based C+I and management information systems.

### Air Force Staff:

The important departments of Air Force Staff are FüL II 4, FüL II 5 and FüL II 6. FüL II 4 deals with transport, special and rotary wing aircraft, FüL II 5 is responsible for combat aircraft and FüL II 6 for missiles and general maintenance.

### Navy Staff:

FüM II deals with logistics and procurement and is divided into seven sub-departments: Relevant are FüM II 5, which is responsible for naval ships, maintenance and platform technology, FüM II 6, which is looking after C<sup>2</sup>I systems, ammunition and information technology as well as weapon systems like naval aircraft and helicopters.

### The Directorate General of Armaments (Hauptabteilung Rüstung):

The Directorate General of Armaments is responsible for planning, supervision and control of all Bundeswehr procurement programs at the Ministry level.

### The tasks of the Service Branches for Planning and Armament:

#### The Army

The Army Forces Command (Heeresführungskommando) formulates requirements with regard to the development and procurement of defense materiel, but is not involved in the planning process.

Against this background the Training Development and Doctrine Command (Heeresamt – TRADDOC) with the troop schools as subordinate structures plays an important role.

TRADDOC's Department III (Army Development) is especially important in this respect because target requirements for all service branches are developed on the basis of the Army Concept, which represents directives for the development of all army equipment items.

The troop education and training centers are responsible for handling equipment and identifying materiel needs. These are then presented to TRADDOC and evaluated in army study groups. Following these evaluations, the requests are either authorized or denied.

Department II is responsible for the implementation of service capability of new equipment. The head of this Department ("General Heeresausrüstung") has responsibility for development and procurement of defense materiel. Another focal point is the Army Materiel Command ("Materialamt des Heeres"), which carries out central logistics operations in the stationary units.

### The Air Force

The Air Force Command (Luftwaffenführungskommando) sets ongoing requirements for the development and procurement of Air Force equipment.

### The Navy

The Naval Support Command (Marineunterstützungskommando) is responsible for logistics and armament. The Navy does not operate its own materiel command.

### The Federal Office of Military Technology and Procurement (BWB):

The Federal Office of Military Technology and Procurement (Bundesamt für Wehrtechnik und Beschaffung) is the largest armaments and logistics operation in Western Europe. It is the link between the armed forces and industry. The BWB is responsible for all materiel programs during their development and procurement phases.

According to the Federal Constitution, the German Armed Forces consist of two organizational areas: Armed Forces and Administration. German regulations in relation to the procurement of defense materiel are quite complicated. This tends to slow down business for the defense industry.

### Who is awarding contracts?

#### Central procurement:

Within the so-called central procurement process, requirements of the Army, Air Force and Navy are jointly identified. The following items are centrally procured: studies, R&D projects, defense items and supplies (Motor vehicles, Air Force and Navy equipment, telecommunications equipment, arms and munition, projectiles etc.) as well as overhaul for the three services.

#### Decentralized procurement:

Some items need to be procured by the different local divisions of the German Armed Forces in a decentralized way e.g. catering, spare parts for common equipment like wheels, cleaning etc. Decentralized procurement is performed by the seven military districts of the German Armed Forces.

### How contracts are awarded:

Depending on the value of the project, the German armed forces apply different national and international awarding procedures.

a) National awarding:

Basis for the awarding of contracts is the “Verdingungsordnung für Leistungen – ausgenommen Bauleistungen” – (VOL/A). This administrative guideline follows the principles of economic efficiency and states that contracts have to be awarded under open competition.

Three procedures are used to award public contracts:

⇒ Open procedure, i.e. contracts are awarded after public invitation without restricting the companies bidding

⇒ Restricted procedure, i.e. contracts are awarded to a restricted number of companies only, due to high quality standards or other reasons

⇒ Negotiation procedure, i.e. if the contract can for certain reasons only be awarded without a formal procedure, companies compete and make an offer.

b) International awarding based on EU-directives

Public orders exceeding a determined value have to be published internationally. Publication is performed based on the EU directive 93/36 of June 14, 1993 as well as directive 92/50 of June 18, 1992, which are part of the VOL/A. They are published in the *Supplement to the Official Journal of the EU*. Advertisements of the German Armed Forces are additionally published in the *Bundesausschreibungs-blatt*.

c) International WEAG-procedure:

The Western European Armaments Group publishes a *bulletin* which contains procurement possibilities.

The WEAG procedure is applied in case of arms, munition, missiles, military airplanes, i.e. items that are listed in the “arms list” relating to art. 223 of the EU contract.

d) International NATO-Infrastructure procedure:

Construction and other infrastructure procedures are published by the Bundesamt für Wirtschaft in the *Bundesausschreibungsblatt*.

**How to enter into business:**

One should not send unsolicited offers to the contacts named above. To ensure a broad range of competition, the procurement agencies are not allowed to use data banks on known companies as the sole basis for an award of a contract. U.S. companies wishing to enter into the defense business with the German armed forces may wish to contact the U.S. Commercial Service in Germany:

The Commercial Service  
U.S. Embassy  
Neustädtische Kirchstraße 4-5  
10117 Berlin  
tel: 49-30-83 05 27 39  
fax: 49-30-20 45 44 66

## **Contracts:**

Contracts can be concluded under the principle of freedom of contract. Procurement agencies are, however, subject to the directive that there have to be standardized guidelines to ensure equality for different competitors. In most cases there are standardized conditions which become part of the contract. Terms of business by the company cannot be taken into consideration.

General terms of contract of the armed forces are the:

VOL/B "Verdingungsordnung für Leistungen"

ZVB/BMVg ("Zusätzliche Vertragsbedingungen des Bundesministerium der Verteidigung")

ABBV ("Allgemeine Bedingungen für Beschaffungsverträge des Bundesministeriums der Verteidigung")

## **Major procurement programs:**

- ❖ Together with France and Great Britain, the German Armed Forces will cooperate on a satellite communication system (SATCOM). The first phase is from 1999 to 2001. The second from 2002 to 2005.
- ❖ Telecommunication and information system for the entire army (FmSysH/FülInfoSysH) will be modernized.
- ❖ The modernization program for AWACS will be continued.
- ❖ Series preparation of UHU TIGER will be continued and delivered from 2002 on.
- ❖ The respective weapons are in the planning stages – including PARS 3 LR.
- ❖ The UAV KZO will be procured for the army.
- ❖ Panzerhaubitze 2000 (tank howitzer 2000) and munition SMART are being procured.
- ❖ Tanks of the army will be replaced by a new Armoured Transport Vehicle (GTK), for the Air Force 13 Explosive Ordnance Disposal Vehicles are in the planning for 2004 to 2007.
- ❖ From 2007 on, the tank MARDER will be replaced.
- ❖ Typhoon (Eurofighter) will be delivered from 2002.
- ❖ Typhoon (Eurofighter) will be supplied with IRIS-T as well as TORNADO for the Air Force and Navy.
- ❖ The PATRIOT system will be modernized in the years 2002 and 2003.
- ❖ The MEADS program is in its definition phase with the first step, the so called "risk reduction phase".
- ❖ Three frigates will be procured (KL 124) from 2002 up to 2005.
- ❖ Four submarines U 212 will be delivered within 2003 to 2006.
- ❖ 15 corvettes will be delivered in 2004.
- ❖ Sea reconnaissance Aircraft MPA 2000 will be delivered by 2007 to 2010 and replace BREGUET ATLANTIC.
- ❖ Future Transport Aircraft (FTA) – replacing Transall – is in the planning from 2005 with delivery planned for 2008. A400M by Airbus Military Company won the contract.
- ❖ From 1998 to 2002 modular containers or tents are procured as camps for crisis reaction forces.
- ❖ NH 90 will replace Bell UH 1 D in the Army and the Air Force from 2003. MH 90 will replace Navy helicopters from 2007.

## **OCCAR (Organisme Conjoint de Cooperation en matière d' Armement):**

OCCAR is a quadrinational organisation for cooperation in armament matters between Germany, France, England and Italy. In September 1998, an international treaty was signed by the four nations, which has given OCCAR its own legal corporate entity in January 2001. OCCAR will perform the following tasks:

- ❖ Management of current and future armaments cooperation programs
- ❖ Management of specific national programs
- ❖ Development of common technical specifications for the development and procurement of equipment that fulfills common needs
- ❖ Coordination of national decisions with regard to the common industrial base and common technologies
- ❖ Coordination and planning of common research activities
- ❖ OCCAR will award contracts based upon guidelines of open competition

The central organization is based in Bonn. Official languages are the languages of the Western European Union. OCCAR is handling programs such as HOT, MILAN, BREVEL, ROLAND and TIGER. Other programs such as GTK and tank howitzer 2000 will follow in the future. The goal of the cooperation is to rationalize, increase efficiency and lower costs of armaments cooperation between the four countries, improve industrial competitiveness and the European technology base. OCCAR is open to further European countries with common programs.